GODFREY KAHN S.C.

Bank Strategy Briefing

Ideas and analysis for community bank executives

What is your mortgage strategy?

Peter Wilder
414.287.9609
pwilder@gklaw.com
LinkedIn

A few years ago, as regulators began rolling out the regulations issued under Dodd-Frank, it became clear that for community banks the "hurt" of Dodd-Frank would largely be felt in their mortgage lending operations. Many industry observers began predicting that community banks may leave the mortgage lending space altogether.

Today, with the major mortgage-related Dodd-Frank regulations issued, it appears that few community banks in the Midwest have abandoned in-house mortgage operations. Mortgage lending continues to be generally seen as a hallmark of a "full service" community bank, and many banks have already made the investments necessary to address the compliance burden. The income—both from portfolio and secondary market sales—can also be a significant contributor to earnings.

On the other hand, mortgage lending has become more commoditized and competition—for both loans and strong loan originators—is becoming fiercer, especially given the current transition from a refinance market to a purchase market. Add the ongoing compliance burden and cost, and it is clear that maintaining an in-house mortgage lending operation can also have drawbacks.

So the question remains: Are the benefits of an in-house mortgage operation worth the costs? Here are some tips to help your team analyze this issue:

1. **Profitability Analysis.** Conduct a profitability analysis of your bank's mortgage operation on a stand-alone basis. This requires some key assumptions, like the proportionate cost of your compliance resources that are dedicated to the mortgage operation, but it will hopefully give your board a rough "breakeven" number as a basis for budgeting and strategic planning.
2. **Alternative Structures.** Research alternative structures that can create efficiencies. These include "private label" or "third party origination" programs, whereby your staff takes applications from customers but much of the back office work (underwriting, processing, etc.) is done by a third party often with more robust expertise and staffing.
3. **Supplement Your Offerings.** If you wish to continue your in-house mortgage operation, consider one of the private label or third party origination providers for the limited purpose of offering new types of loan products that you might not otherwise have the expertise to offer, such as VA, FHA, or USDA loans. These can be valuable offerings for customers and new sources of revenue.
4. **Align Compensation Plans.** Make sure that compensation arrangements are both effective and compliant. Loan originator compensation continues to be an important business consideration to drive desired behavior and remain competitive, but it also continues to be one of the more common regulatory problems for community banks.

5. **Leverage Third-Party Service Providers.** There are countless third party products, most of which are in the fintech space, that if properly integrated can make your mortgage operation more efficient and robust. Be open to exploring what these products have to offer.

Mortgage lending will continue to remain a critical element of most community banks' business plans. As with anything else, we believe that community banks should revisit their strategy for mortgage lending occasionally to ensure that it remains valuable for shareholders and customers.

Banking & Financial Institutions Practice Group Members

PRINCIPAL CONTACT

Thomas R. Homberg
thomberg@gklaw.com

MILWAUKEE OFFICE

Kathryn R. Allen
kallen@gklaw.com

Benjamin J. Clarke
bclarke@gklaw.com

Jason E. Kuwayama
jkuwayama@gklaw.com

Richard S. Marcus
rmarcus@gklaw.com

Patrick S. Murphy
pmurphy@gklaw.com

Andrew Spillane
aspillane@gklaw.com

Peter Wilder
pwilder@gklaw.com

Shirley J. Huntemann
shuntemann@gklaw.com